

ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Thomson Analyst: LuAnna Hass Bill Number: AB 1686
Related Bills: See Legislative History Telephone: 845-7478 Amended Date: July 5, 2001
Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Rice Straw Utilization Program/Reallocate Funds From Rice Straw Tax Credit

SUMMARY

This bill would develop a program to provide financial assistance to rice growers and end users of rice straw (as defined below under "Federal/State Law").

This analysis will address the bill only as it impacts the department's programs and operations.

SUMMARY OF AMENDMENTS

The July 5, 2001, amendments would remove language regarding financial assistance for growers of rice straw, including the appropriations language, and replace it with language that would reallocate unused appropriations provided for grants for the use of rice straw and the state rice straw tax credits.

This is the department's first analysis of this bill.

PURPOSE OF THE BILL

According to the author's office, the purpose of this bill is to encourage rice growers and end users to find new uses for rice straw.

EFFECTIVE/OPERATIVE DATE

This bill would be effective and operative January 1, 2002.

POSITION

Pending.

ANALYSIS

FEDERAL/STATE LAW

Federal law and state law contain a variety of provisions specifically relating to farmers and agriculture. These provisions include special accounting and inventory methods, certain income deferral conditions, capital gain/ordinary loss treatment, the deduction of items normally capitalized, and exempt status for labor, agricultural, or horticultural organizations.

Board Position:

<input type="checkbox"/> S	<input type="checkbox"/> NA	<input type="checkbox"/> NP
<input type="checkbox"/> SA	<input type="checkbox"/> O	<input type="checkbox"/> NAR
<input type="checkbox"/> N	<input type="checkbox"/> OUA	<input checked="" type="checkbox"/> PENDING

Department Director

Date

Gerald H. Goldberg

08/03/01

Existing state and federal laws provide various tax credits designed to provide tax relief for taxpayers who incur certain expenses (e.g., child adoption) or to influence behavior, including business practices and decisions (e.g., research credits or economic development area hiring credits). These credits generally are designed to provide incentives for taxpayers to perform various actions or activities that they may not otherwise undertake.

Current state law allows a tax credit equal to \$15 for each ton of rice straw purchased by the taxpayer that was grown in California. Under both the Personal Income Tax Law (PITL) and the Bank and Corporation Tax Law (B&CTL), the credit is limited to an aggregate annual amount of \$400,000. By reference to the Health and Safety Code, "rice straw" is defined as the dry stems of cereal grains left after the seed heads have been removed. The purchaser must be the "end user" of the rice straw (i.e., anyone who uses the rice straw for processing, generation of energy, manufacturing, export, prevention of erosion, or for any other purpose, except open burning, which consumes the rice straw). Also, the taxpayer allowed the credit must not be related to the person who grew the rice straw. The Department of Food and Agriculture (DFA) is required to certify the credits on a "first come, first served" basis and ensure that the aggregate amount for the calendar year does not exceed \$400,000. To qualify for the credit, the taxpayer must obtain, retain, and provide a copy of the certification provided by the Department of Food and Agriculture.

THIS BILL

Under the Health and Safety Code (H&SC), this bill would create a Rice Straw Utilization Program (RSUP) that would provide financial assistance to rice growers and end users of rice straw in the Sacramento Valley Air Basin. The recipients would be required to use the assistance to find new means to dispose of, or new uses for, rice straw. The assistance would take the form of cash-redeemable use credits. The program would be administered by the DFA.

Under this bill, funds that are appropriated but unused for both the rice straw tax credit under the PITL and B&CTL and grants for the use of rice straw under the H&SC would be reallocated to the RSUP Account on January 1, 2002.

This bill also outlines, among other things, the value of the trade credits, uses for the trade credits, and a market development plan to stimulate interest in the RSUP.

IMPLEMENTATION CONCERNS

This bill would require unused funds appropriated for the purpose of the rice straw tax credit to be reallocated on January 1, 2002, to the RSUP Account. According to the author's staff, the intent of this bill is to reallocate any unused funds from the rice straw tax credit since its enactment in 1996, and annually thereafter. As discussed under state law, the total amount of credits allowed is \$400,000 for each calendar year. For this credit, money from the state's General Fund is not used to subsidize the credit. The credit amounts, not to exceed the threshold, are essentially foregone revenue to the state. Current law does not allow FTB or DFA to carryover the unused portion of the \$400,000 of lost revenue to the following calendar year. Since neither DFA nor FTB receive an annual appropriation to fund this tax credit, there is no accumulated pool of money to be reallocated for purposes of this bill. The author may wish to amend the bill to create a fund for the trade credit proposed by this bill and request appropriations for the credit.

Also, the language could be read as only reallocating the 2001 money, and clarification is needed if the author wishes funds not certified for the rice straw tax credit to be reallocated annually to the trade credit.

LEGISLATIVE HISTORY

AB 510 (Stats. 1998, Ch. 49) made a nonsubstantive, technical change relating to partnerships in the rice straw credit.

SB 38 (Stats. 1996, Ch. 954) created a tax credit equal to \$15 for each ton of rice straw purchased by the taxpayer.

OTHER STATES' INFORMATION

A review of other state tax laws is not relevant to the provisions of this bill relating to the development of a program to provide financial assistance to growers and end users of rice straw.

FISCAL IMPACT

This bill would not impact department costs.

ECONOMIC IMPACT

This bill would not impact the state's income tax or bank and corporation tax revenue.

LEGISLATIVE STAFF CONTACT

LuAnna Hass
Franchise Tax Board
845-7478

Brian Putler
Franchise Tax Board
845-6333